# THE CASE FOR REGULATING TOBACCO MANUFACTURERS' PRICES IN IRELAND

by

Dr J. Robert Branston
*Centre for Governance and Regulation, School of Management, University of Bath, UK*

Dr J Robert Branston
School of Management
University of Bath
Claverton Down
Bath BA2 7AY
UK
Email: J.R.Branston@bath.ac.uk

Tel: +44 (0)1225 383179
Fax: +44 (0)1225 386473

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## INTRODUCTION

The case for regulating tobacco manufacturers' prices has been made elsewhere [1-2]. In summary, capping prices could generate numerous public health benefits and also be financially advantageous to the implementing government. The appeal of the policy is such that there is varying levels of interest in several countries, most notably in the Republic of Ireland [3-9]. To that end this article seeks to establish the profitability of the Irish tobacco market and thus what additional tax revenue could be raised if such price regulation was introduced.

## METHOD

This paper follows the same basic approach as was used previously to examine the application of tobacco price regulation in the UK [2]. Data on the major tobacco companies' market share for each tobacco product was obtained from Euromonitor for 2010 and 2011 [10], and this was used to calculate overall tobacco market shares. Data on company profits was then obtained from the annual reports of the major transnational tobacco companies (TTC) and their subsidiary companies operating in Ireland. Where necessary, estimates of profit and revenue were determined using the actual data available. Calculations were then made to estimate by how much current TTC profit would be reduce by the imposition of regulation, and thus what money would be available to the government in the form of increase tobacco taxation (given the assumption the price to end-consumers would not change). The cost of imposing the regulation are allowed for, and the results are presented via two scenarios: an optimistic scenario which uses more sympathetic assumptions; and a conservative scenario with more cautious assumptions.

## RESULTS

Applying the method to the data available generates table 1 and table 2 which contain information on the current profitability of the Irish tobacco market and the scope for reducing this to levels currently associated with other European consumer staple companies.

**Table 1: 2010 Irish Tobacco Industry actual Profitability and Profits with Regulation***

| | Imperial *** (John Player & Sons) | JTI (Gallaher [Dublin] Ltd) | BAT (P J Carroll & Co plc) | Total** |
|---|---|---|---|---|
| Market Share (%) | 34.23 | 46.41 | 10.76 | 91.40 |
| Revenue | €85,139,968 | €115,440,477 | €35,525,000 | €236,105,445 |
| Profit actually made | €35,712,886 | €65,308,000 | €9,383,000 | €110,403,886 |
| Profit rate actually achieved | 0.4195 | 0.5657 | 0.2641 | 0.4676 |
| Profit when capped at 20% of actual revenue | €17,027,994 | €23,088,095 | €7,105,000 | €47,221,089 |
| Implied reduction in profits from 2010 level | €18,684,892 | €42,219,905 | €2,278,000 | **€63,182,797** |
| Profit when capped at 12% of actual revenue | €10,216,796 | €13,852,857 | €4,263,000 | €28,332,653 |
| Implied reduction in profits from 2010 level | €25,496,090 | €51,455,143 | €5,120,000 | **€82,071,232** |

Source: Author's calculations using various sources as outlined in the text.

* JTI's tobacco duty estimated using information on duty paid by BAT. Profit figures for Imperial are estimates based on their profitability for the EU excluding UK, Germany and Spain, and revenue for Imperial is estimated using JTI information adjusted for market share.

**Total market share doesn't sum to 100% as the profitability of the companies comprising the remainder of the market is assumed to be unaffected by the imposition of price caps

*** Imperial figures contain Philip Morris International (PMI) brands as they are the distributor in Ireland

**Table 2: 2011 Irish Tobacco Industry actual Profitability* and Profits with Regulation**

| | Imperial *** (John Player & Sons) | JTI (Gallaher [Dublin] Ltd) | BAT (P J Carroll & Co plc) | Total** |
|---|---|---|---|---|
| Market Share (%) | 33.34 | 46.88 | 10.26 | 90.48 |
| Revenue | €79,777,706 | €112,184,988 | €34,538,000 | €226,500,695 |
| Profit actually made | €32,973,449 | €62,280,000 | €9,003,000 | €104,256,449 |
| Profit rate actually achieved | 0.4133 | 0.5552 | 0.2607 | 0.4603 |
| Profit when capped at 20% of actual revenue | €15,955,541 | €22,436,998 | €6,907,600 | €45,300,139 |
| Implied reduction in profits from 2010 level | €17,017,908 | €39,843,002 | €2,095,400 | **€58,956,310** |
| Profit when capped at 12% of actual revenue | €9,573,325 | €13,462,199 | €4,144,560 | €27,180,083 |
| Implied reduction in profits from 2010 level | €23,400,124 | €48,817,801 | €4,858,440 | **€77,076,366** |

Notes and Sources as per table 1

Table 3 combines these calculations with information on the likely costs of implementing the scheme of regulation in order to give estimates of the likely increase in tax revenue the government might expect.

**Table 4: Calculations of the potential increase in yearly Irish tobacco tax revenues due to price-cap regulation**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Optimistic Scenario | Conservative Scenario | Optimistic Scenario | Conservative Scenario |
| Reduction in profits due to regulation | €77,076,366 | €58,956,310 | €82,071,232 | €63,182,797 |
| Implied reduction in corporate taxes at 12.5% | €9,634,546 | €7,369,539 | €10,258,904 | €7,897,850 |
| Cost of OFSMOKE regulator* | €7,000,000 | €10,000,000 | €7,000,000 | €10,000,000 |
| **Potential net increase in taxes** | **€60,441,820** | **€41,586,771** | **€64,812,328** | **€45,284,947** |

Source: Author's calculations using information presented in tables 1 and 2.

* estimated using the expenditure of existing Irish regulators

These results show that the imposition of price caps has the potential to generate between €40m and €65m in additional tax revenue each year, a considerable sum in the context of a country like Ireland. These estimates are deliberately conservative in terms of the assumptions taken so are likely to be robust and if anything, under-estimate the potential.


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